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The position of gender diversity in Indian corporate boards

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Abstract: The Companies Act of 2013 has provided top priority to Corporate Governance (CG). Among the various provisionsrelated to CG, the Act mandates appointment of a minimum of one woman director in the Board. The Securities and Exchanges Board of India (SEBI), so as to align with the Act, has revised Clause 49 to add suitable provisions regarding Board composition. Board diversity has also been provided top priority all over the world. However, the position of women Board membership the world over is dismal. The paper analyzed the present position of the women in the Board of Directors of BSE 30 (Bombay Stock Exchange) companies. The main focus was to find out the composition with respect to the inclusion of women before and after the enactment of the new Companies Act. The results of the study show that the status of gender diversity in the Indian Boards is far below the required minimum standards set globally. Certain companies are yet to appoint the required minimum women in the Board, as stipulated by the Act and SEBI. Drastic steps need to be taken to bring in the required diversity in the Indian board rooms.

Keywords: Board diversity, Gender Diversity, Women on Board, Board of Directors, Companies Act 2013

INTRODUCTION

Though India had an active stock market for over 135 years, it lacked corporate governance (CG) legislations until the late 1990s. A remarkable step was taken in this direction in the year 2000 with the inclusion of Clause 49 by the Securities and Exchange Board of India (SEBI). This clause is applicable only for the listed companies. Ever since the introduction of Clause 49, there have been a number of new additions and amendments to the CG norms. For instance,revisions with respect to impositions of penalties have been included to deal with non-compliance cases. With the enactment of Companies Act 2013, and its notification in the Official Gazette in March 2014, CG has been given top priority. Among other provisions, related to CG, the Act mandates appointment of a minimum of one women director in the Board.Clause

49 was also revised by SEBI to add suitable provisions regarding Board composition, so as to align it with the Act of 2013.

Proponents of CG as well as champions of women's right are unanimous about the desirability of having more women members in the Board. A diverse board is found to bring in considerable advantages to the company. Despite the numerous advantages of having a diverse board, with adequate number of women membership, the fact remains that their participation is dismal. This is the situation of women membership the world over – be it developed or developing. The present study is motivated by Section 149(1) of the Companies Act of India 2013, and the amended Clause 49 of listing agreement which mandates appointment of women in the Board. As per the provisions of Section 149 (1) of the Act every listed company must have at least one woman as member of the Board of Directors. The various categories of companies that have to comply with this requirement are companies listed in the Stock exchanges, Public companies having paid-up share capital of INR one billion or more or those with an annual turnover of INR three billion or more.

This paper is an attempt to find out the change in the composition of the Boards of BSE30 (Bombay Stock Exchange) companies with respect to the inclusion of women, before and after the amendment of the Companies Act.

REVIEW OF LITERATURE

The world over board diversity and participation of women is a topic of heated debate and discussion. Even in developed countries there are many large companies that are yet to have women Board members. The report based on the survey conducted by Corporate Women Directors International (2013), shows that women occupied only 15 per cent of board membership of world's 200 largest companies. Nearly one fourth of these large corporations (most of them from Asia) did not have even a single women director. A board that is diverse in nature is most likely to approach corporate problems in different ways. It is also considered as a remedy to group think, and is ideal for fostering creativity that will propose a wide range of perspectives and solutions to corporate problems.There are volumes of literature about board diversity and the innumerable advantages it can deliver to the companies. An attempt is made to review the related literature.

Board diversity and performance

Many studies have found that a diverse Board structure has the potential to influence the actions and its subsequent performance (Carter, D'Souza, Simkins, & Simpson, 2010) leading to increased market penetration, effective problem solving and corporate leadership (Jindal & Jaiswall, 2015).Within the broad spectrum of board diversity, interest in gender diversity has increased manifold in the recent past. This has happened due to the compelling empirical evidence regarding a positive link between corporate performance and gender diversity. A study by Credit Suisse (2014) found that large companies (those having higher market capitalization) having a minimum of one woman on their board were able to outperform other companies by around five percent. The findings of MSCI ESG Research (2015) also corroborate this.

Gender diversity is accepted by many as a 'performance driver' (*Women Matter,* 2010), and provides a lot of other benefits (Forbes & Milliken, 1999). For instance, various stakeholders like institutional investors, shareholders, rating agencies, etc. believe that in this increasingly complex and globalized scenario companies that succeed in hiring, retaining and promoting women will be betterequipped, than others, to capitalise on competitive opportunities. This is backed by empirical results too. Adams & Ferreira (2009) found that there are significant positive effects on board inputs, if there is genderdiversity. Women Board members are more likely to be serious in their roles and attend meetings with preparation (Izraeli, 2000). The attendance behaviour of men and women were also found to be different, with women having lessattendanceproblems. Positive results were also found with respect to male directors' attendance behaviour, if there was greater number of womenontheboard.*Women Matter* (2008) found that some leadership qualities found more frequently among women was the reason for positive performance of the companies.

Women membership was also found to be associated with financial performance of firms (Francoeur, Labelle & Sinclair-Desgagné, 2007; Jehn, Northcraft & Neale, 1999), and greater effectiveness (Balasubramanian, Barua & Karthik, 2015). Lee, et al. (2015) found that companies with strong female leadership were able toobtain a higher Return on Equity (ROE) of 10.1 per cent. This was 7.4 per cent for companies that did not have a strong women leadership. A study by Randstad an HR services company in India in the year 2014 about ROE data of top 100 Indian companies(BSE 100) provided similar results. They found a positive relation between companies that have women on their boards and ROE. While the ROE of a company with a professional CEO having a god mix of both genders in the board rose by 4.4 per cent over the previous year, a company having all men board exhibited a rise of only 1.8 per cent.

Gender diversity and corporate governance

Gender diversityalso significantly affectsCG. It is also argued that this could enhance the effectiveness of the board (Adams& Ferreira, 2009). Further, there is a tendency towards governance related controversies for companies that lack board diversity (Lee, Marshall, Rallis & Moscardi, 2015).Fewer governance-related controversies like bribery, corruption, fraud, etc. were found in board having gender diversity (MSCI ESG Research, 2015), as women members improve the "monitoring role" (Campbell & Mínguez-Vera, 2008). Gender diversity was also found to improve a firm's CSR rating and reputation (Bear, Rahman & Post, 2010).

Diversity would also have profound effect on complicated task requiring interdependent work (Larcker & Tayan 2013; Lucas-Pérez, Mínguez-Vera, Baixauli-Soler, Martín-Ugedo & Sánchez-Marín, 2014).They believed that gender balancehas the potential to enhance independence of the board and stimulate an altogether different boardroom dynamics. This is accomplished through encouraging a sort of healthy debate through diverse perspectives (Zelechowski & Bilimoria, 2004) and unique attributes (Groysberg, Murphy & Bell, 2010).Further, a diverse board also reduces the possibility of a homogeneous groups giving rise to groupthink (Huse & Solberg, 2006) and un-required premature consensus (Larcker & Tayan, 2013).There is also the possibility of women board members having diverse insightsabout various aspects like customer behaviour, risk taking, decision making, etc. They argue that women have a higher possibility exhibiting trustworthiness andcooperation.

Risk taking in board decisions was also subject to empirical examination (Jianakoplos & Bernasek, 1998; Larcker & Tayan, 2013). They are of the opinion that since women are more averse to risk while taking decisions, companies are likely to benefit from their behaviour. However, conclusions' regarding risk is inconclusive. For instance Lee, et al (2015) did not find any evidence of greater risk aversion for boards having more women on board.

What prevents women from entering Boards

What are the reasons for there being less number of women on board? *Women Matter* (2010) found two barriers for women not reaching corporate boards. They are "double burden syndrome" and "anytime, anywhere" performance model. Double burden syndrome is the combination of domestic and work responsibilities, and anytime-anywhere pertains to the total availability and greater geographical mobility. It was also found that both male and female executives quote these two barriers as a reason for lesser women on board. Yet another reason (though without empirical examination) cited for non availability of women directors are that those with adequate qualification are in short supply. This observation seems out of context, as Lee, et al. (2015) found that though female directors lacked experience, they were having higher and advanced educational qualifications.

EgonZehnder (2014), a Board consulting company identified four reasons that stop women from reaching Board positions in India. They are:

a. Leaking pipeline: The unique socio-cultural norm that is prevalent in India prevents advancement of women executives. Though many talented women enter the workforce with high hopes and ambitions, as they move up the corporate ladder, their ambitions get diluted as a result of changing priorities with respect to family and other related commitments. This is the main reason for the scarcity of female talent.

b. Limited bandwidth: Though women may qualify for Board positions, owing to family commitments they may be reluctant for taking it up. In addition to this certain unhelpful attitudes and stereotyping makes it difficult for women to find the required time to pursue Board positions.

c. Limited appreciation of the benefits of board membership: Women usually do not appreciate the benefits derived from being on the Board; like learning from talented experts, acquiring skills of constructive enquiry, influencing ability, etc.

d. Risks and liabilities of a board member: Since being a Board member involves a lot of legal risks, most women are concerned about taking up the position. Due to the risks involved they are said to ask the question "Is it worth being on a Board?"

Let us earnestly expect and honestly hope that Indian women will be able to tide over the stereotyping and unhelpful attitudes, and be part of genuinely diverse Boards in the near future.

IS THERE AN IDEAL NUMBER

What is the ideal number of women on board? Research in this field done by Kramer, Konrad & Erkut (2006) suggested that "three women may constitute a critical mass to allow women to contribute more equally to group decision making". Later studies (Jia & Zhang, 2013; Konrad, Kramer & Erkut, 2008) also were in agreement with this suggestion. There are also suggestions by advocacy groups and global asset owners that, in order to have diversity that could improve decision making, the boards should have 30 per cent females. Similar views are expressed by professional organisations and advocacy groups. For instance, MSCI (2015) categorized companies into two groups based on gender diversity – companies having "strong female leadership", and without. A company having three or more women on board, or if the per cent of women on the board is above the country average, or if it has a female CEO, were categorised as one having strong female leadership.

However, even at the global level, even the 'minimum three' seems to be a distant reality. A recent study by Lee, et al. (2015) found, with respect to the global director reference universe, that globally though 73 per cent boards had one female director, boards with three females was a mere 20.1 per cent. They estimate that based on the present trend, even by 2027 women are unlikely to constitute 30 per cent of the board. However, there are a few bright spots that need special mention. For instance, as on August 2015, Norway, Sweden and France had more than 30 per cent women board members. The per cent of women members were 40.1, 33.7 and 33.5 per cent respectively.

Mc Kinsey & Company *Women Matter* (2010) presents a peculiar situation wherein though majority of corporate leaders express their desire towards gender diversity and believes in its positive impact; it is not converted into action. Further gender diversity is not in the strategic agenda of many companies.

OBJECTIVE OF THE STUDY

As stated earlier the Companies Act 2013 and SEBI had stipulated that listed companies should have a minimum of one women director to bring in Board diversity. The last date prescribed to fulfil this condition was 1st October 2014. What was the position of the Boards prior to this Act, and what has changed since the d-date set by the Government? This present work is a modest peep into this aspect. The main objective of the study is to find out the position of gender diversity prior and subsequent to the Companies Act, 2013.

METHODOLOGY

The study was conducted with the data derived from the details presented in the Annual Reports of the respective companies for the year 2014-15 and 2015-16. The study was limited to the 30 companies of BSE Sensex.

ANALYSIS AND DISCUSSION

The total number of directors in the BSE Sensex companies and females are presented in Table 1. From the table it can be observed that though the number of directors have show a marginal increase of three, there has not been any increase in the number of female directors. The per cent of female directors for the year 2015-16 is 11.1. This is marginally down by 0.1 from the 11.2 in 2014-15. A deeper analysis shows that while five companies increased the number of directors, there has been reduction in seven companies. Most of the women directors (19) were independents. The detailed table is presented in the Annexure.

Table 1
Number of Directors

Financial year	*2014-15*	*2015-16*
Total directors	366	369
Total women directors	41	41

Going by the standard set by Jia & Zhang (2013); Konrad & Erkut (2006); and Konrad, Kramer & Erkut (2008) that three women constitute a "critical mass", the latest figures show that India is far away from it. Only two companies (Infosys and Cipla) had this magical number. If we are also to consider the categorization by MSCI (2015) for a "strong female leadership", i.e. having female CEOs, then five more companies can be added to the list. This makes the total number of companies to seven, which is a mere 27 per cent of the BSE Sensex (which constitute 30 companies). The average number of female directors stood at a dismal 1.36, including the CEOs. It is noteworthy that of the five companies having female CEOs three are in the banking sector, out of which one (SBI) is a Government company. The sad part is that out of the two companies that did not have women directors in their Boards (Adani Ports and ONGC), one (ONGC) is a Government company. It has thus to be construed that these companies did not comply with the provisions of SEBI. Further, both the companies were having female directors in 2014-15. In the year 2014-15, only one company (NTPC) was not having a female director in the Board.

There are six companies Public Sector companies in the Sensex. Among this one company (SBI) had two members in the Board with the CEO also being a female. All the other had only one female Board member and ONGC was not having any. The study has thus succeeded in presenting a fair picture of the position of women directors in the BSE Sensex companies.

CONCLUSION

The overall results show that the status of gender diversity in the Indian Boards is far below the required minimum standards set globally. Going by the present level, it is doubtful whether India will be able to achieve Board diversity by 2027, as projected by Lee, et al. (2015) on an international basis. If Indian companies are to be at par with global corporate with respect to diversity, lots need to be done. The study was a modest attempt which limited itself to the BSE Sensex companies. There is scope to examine the Board diversity in anin-depth manner by taking other broad based indexes. It is expected that more studies will be taken up, which will through more light, in this fascinating area.

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ANNEXURE

Detailed list of number of directors and female directors

		Total Directors		Female Directors		Position	
Sl. No.	Company names	2015	2016	2015	2016	2015	2016
1	ICICI	12	13	1	2	CEO, MD	CEO, MD & Ex.Director
2	ITC	16	16	1	2	Non Exe Director	Both Exe.Director
3	Gail India Ltd.	12	12	2	1	Both Director	Director
4	Larsen & Turbo	18	21	1	2	nominee of LIC	Nominee of LIC , Independent Director
5	NTPC	12	11	0	1	-	Independent Director
6	TCS	11	11	1	1	Executive Director	Executive Director
7	ONGC	9	12	1	0	Govt. Nominee Director	-
8	Maruti	12	12	1	1	Independent Director	Independent Director
9	Bajaj Auto	17	17	2	1	Both Director	Independent Director
10	Wipro	10	13	1	1	Independent Director	Independent Director
11	HERO	11	11	1	1	Non Exe Independent Director	Non Exe Independent Director
12	HDFC	12	12	2	2	Chair Person, Director	Chair Person, Director
13	TATA motors	14	10	1	1	Non Exe Independent Director	Non Exe Independent Director
14	Axis Bank	13	15	3	2	Managing Director & CEO, 2 Directors	Managing Director & CEO, Director
15	Tata Steel	12	11	1	1	Independent Director	Independent Director
16	Reliance	13	14	1	1	Non Exe Independent Director	Non Exe Independent Director
17	Asian Paints	14	14	2	2	Independent Director	Non Executive Director
18	Lupin	10	12	2	2	CEO, Executive Director	CEO, Executive Director
19	Infosys	10	9	3	3	3 Independent Directors	3 Independent Directors
20	Sun Pharma	9	9	1	1	Non Exe. Independent Director	Non Exe. Independent Director
21	Adani Ports	11	12	1	0	Director	
22	Mahindra Mahindra	12	11	1	1	Independent Director	Independent Director
23	Cipla	13	12	1	3	Independent Director	Executive Director, 2 independent Directors
24	Hindustan Uniliver	9	9	1	1	Independent Director	Independent Director
25	Dr.Reddys	10	11	1	1	Independent Director	Independent Director
26	Bharti Airtel	13	12	3	2	2 Non Exe Directors 1 Independent Director	2 Non Exe Directors
27	SBI	15	14	1	2	Chairman	Chairman, Nominated By Govt
28	Coal India	10	13	1	1	Part time Director	Independent Director
29	Power Grid	13	8	1	1	Govt. Nominee Director	Govt. Nominee Director
30	HDFC Bank	13	12	2	1	Chairperson, Director	Director
	Total	366	369	41	41		